

WISCONSIN ECONOMIC OUTLOOK

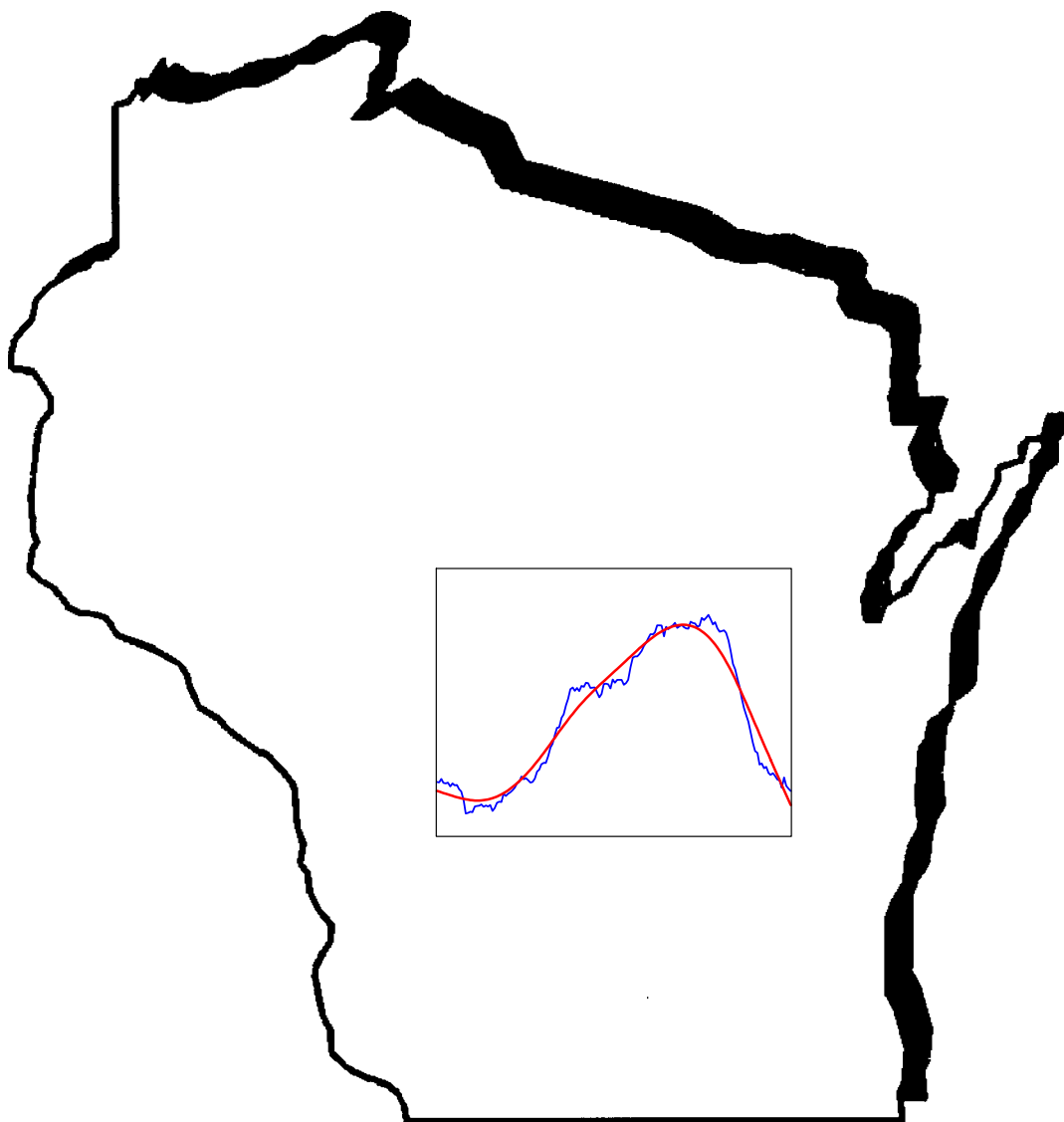


TABLE OF CONTENTS

TABLE OF CONTENTS

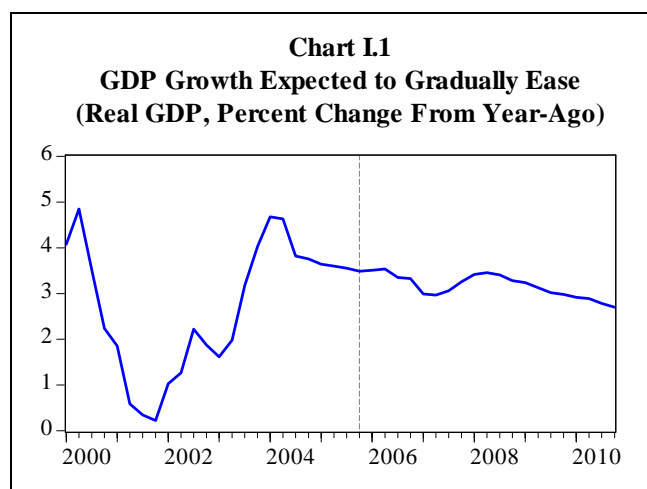
	Page
I. ECONOMIC OUTLOOK	
U. S. Outlook.....	1
Wisconsin Outlook	13
Appendices	20
II. REVENUE COLLECTIONS REPORT	
Revenue Collections through October 2005.....	26

This is a regularly scheduled quarterly economic outlook released by the Wisconsin Department of Revenue. The Division of Research and Policy, Wisconsin Department of Revenue prepared the Wisconsin forecast. Global Insight, Inc. prepared the national forecast on November 7, 2005. The forecast does not incorporate data released subsequent to that date.

I. ECONOMIC OUTLOOK

U. S. OUTLOOK

The U.S. economy appears resilient in the face of the hurricane shocks, but high energy prices will dampen growth in the fourth quarter of 2005. That should be offset by faster growth in the first half of 2006 as reconstruction activity accelerates. Beneath the hurricane-induced swings, the underlying trend is slower economic growth, as the housing market cools and consumer spending growth eases. In the current forecast, Global Insight expects GDP growth of 3.6% in 2005, followed by 3.4% in 2006 and 3.1% in 2007.



The Forecast in Brief

The predominant picture emerging from recent data is of a resilient economy coping well with the hurricane shocks—although high energy costs are clearly hurting businesses and consumers. Indeed, high energy costs may have depressed the October payroll employment count (just 56,000 jobs added), and amplified an autos-led downturn in consumer spending. The storms will put a dent in fourth-quarter GDP growth as energy costs squeeze spending power, but growth should pick up in the first half of 2006 as reconstruction activity accelerates and energy production recovers.

The economy was carrying plenty of momentum when Katrina and Rita hit the Gulf Coast. Third-quarter GDP growth of 3.8% was strong, and would surely have exceeded 4.0% but for the hurricanes. The most recent Institute for Supply Management business confidence surveys are giving bullish signals, although they continue to emphasize the squeeze from high energy costs.

Businesses now seem a bit bolder about passing on their energy cost increases than earlier in the year, so it is welcome news that some energy prices have eased. The retreat of gasoline prices has come faster than most anticipated, and retail prices should now fall back to around \$2.25 by year-end. This will give consumers some needed relief, since the impact on winter heating bills from higher home heating oil and natural gas prices has yet to arrive—and will be large. Over the fourth quarter of 2005 and the first quarter of 2006, consumer energy prices will average about 20% higher than a year earlier, led by a 47% surge in natural gas prices. Energy costs will absorb 5.9% of disposable income over the winter months, up 0.7 percentage point from a year earlier.

Apparently, consumers are anticipating the looming winter heating shock, as consumer sentiment remained weak in October despite falling gasoline prices. Real consumer spending fell in both August and September, pulled downward by slumping auto sales. Indeed, vehicle sales plunged even lower in October, as high gasoline prices deepened the payback for the successful "employee discount programs." Real consumption is expected to slow to almost zero (0.1%) growth in the fourth quarter, although holiday sales will not be as bad as that looks, since vehicles take the biggest hit. Excluding light vehicles, real spending growth will reach 2.7%—tepid, but not disastrous.

Retailers usually judge the holiday season by year-over-year (y/y) nominal sales growth. On that basis, consumer spending (excluding autos and energy) is set to rise 5.4% y/y in the fourth quarter, more than a percentage point below the 6.7% rate in 2004, but roughly in line with 2003, and well above the depressed 2001 and 2002 growth rate rates of close to 3.0%.

GDP growth slows along with consumer spending in the fourth quarter, but only to 3.0%, as hurricane repairs and rebuilding gather pace, while auto inventories start to pile up again. By the first quarter of 2006, the positive stimulus from reconstruction combines with a recovery in energy production to pull GDP growth back to almost 4%. Thereafter, a gradual slowdown sets in, as the housing market cools in the face of overextended prices and higher interest rates. Even with an extra 150,000 housing starts over the next three years because of the hurricanes, starts should nevertheless fall back from their 2005 peak of more than 2 million units. Rapid price gains have made houses less affordable for the average buyer. Indeed, anecdotal reports and recent declines in new home sales suggest that some of the heat is beginning to leave the market.

In addition, consumer spending growth will be on a slowing trend. The personal saving rate has fallen below zero—for only the second time since World War II. This suggests that some rebuilding of savings is likely, especially if the home-equity pump from the housing market loses force.

In the business sector, corporations still have plenty of cash to fuel an expected double-digit jump in business equipment spending this year, and nearly the same next year. Still lagging behind, nonresidential construction spending should finally rebound during 2006, helped by post-hurricane rebuilding. Drilling activity will be boosted next year by still-high energy prices.

The hurricanes will bring to an end, at least temporarily, the improvement in federal government finances. Global Insight has added \$110 billion to federal spending over the next 3–4 years to cover hurricane-related costs. The budget deficit should accordingly widen to \$365 billion in fiscal 2006, from \$319 billion in fiscal 2005.

Export growth should reach the high single digits during the rest of 2005 and into 2006. There have been recent signs of economic improvement in the Eurozone and Japan, but not enough to keep U.S. export growth at the second quarter's double-digit pace. The dollar has appreciated this year based on a rising interest-rate differential in favor of U.S. assets, but its long-term path is still downward, due to the large and still-widening trade gap. The current-account deficit is likely to exceed \$900 billion (6.8% of GDP) in 2006.

The post-hurricane surge in energy prices sent CPI inflation soaring to 4.7% y/y in September, but there will be better news for October and November now that gasoline prices have fallen. The key question is what will happen to "core" inflation (excluding food and energy). Core inflation will likely rise as higher energy costs are passed through. The core rate is expected to creep up from 2.2% in 2005 to 2.4% in 2006. This suggests that more Federal Reserve tightening is required. Recent signals from the Fed continue to emphasize upside inflationary risks, rather than downside growth risks. As a result, the Fed will likely keep hiking interest rates a quarter percentage point at a time, reaching a 4.75% federal funds rate at the end of March 2006, before taking an extended pause.

Ten-year bond yields have moved above 4.5% on inflation nerves and the continued hawkish tone from the Federal Reserve. Yields should continue to rise, heading above 5.0% during 2006.

KEY FORECAST ASSUMPTIONS

The national forecast (prepared by Global Insight) in this report is based on several key assumptions which are outlined below.

Hurricane Damage and Response

The Bureau of Economic Analysis' (BEA) estimates of the damage from Katrina and Rita have been incorporated into this forecast. These imply \$76 billion in damage to the stock of private capital. U.S. private insurers will cover about \$35 billion in damage.

Another \$10 billion in damage from Hurricane Wilma in October (\$8 billion covered by private insurers) is now part of the forecast assumptions.

The federal government will spend \$110 billion in response to the storms, spread over several years. This represents \$80 billion in spending by FEMA (including \$20 billion in flood insurance) and \$30 billion in funding for infrastructure rebuilding. Global Insight has not assumed offsetting spending cuts.

Global Insight assumes an extra 150,000 housing starts over the next three to four years to replace units destroyed or rendered uninhabitable.

Corporate profits will take a sharp hit in the third quarter of 2005 due to destruction of corporate capital and insurance payouts. The BEA estimates the negative impact at an annualized \$151 billion. This is a one-time effect—so profits will bounce back sharply in the fourth quarter.

Oil prices (West Texas Intermediate) should be in the \$61–62/barrel range for rest of 2005, falling back gradually to \$55 by the fourth quarter of 2006. Prices will return to below \$50 during 2007 (dropping to \$42.50 by 2010). Today's high prices will lead to improvements in energy efficiency, restraining demand, and to increased exploration and development, producing extra supply. Neither mechanism works quickly, but they will eventually bring prices down. Global Insight assumes the retail gasoline price will retreat to around \$2.25/gallon by year-end, as margins over crude oil prices return to more-normal levels.

The hurricanes were a greater shock for natural gas than for crude oil. The key assumption here is that the Henry Hub price for natural gas will average \$11.99 per million Btu in the first quarter of 2006, 87% higher than a year earlier.

Other Key Forecast Assumptions

The Federal Reserve will make three more 25-basis point hikes in the federal funds rate, taking it to 4.75% as of March 28, 2006, followed by an extended pause.

Although the worsening U.S. current-account deficit implies that downside risks predominate for the greenback, it has strengthened against most currencies since the beginning of the year. This strengthening is assumed to reverse; the dollar will slide against the euro and yen over the rest of 2005, yielding rates of \$1.21/euro, 111 yen/dollar, and C\$1.17/dollar at year-end. Further dollar declines are anticipated against these major currencies, averaging 7% during 2006 and 5% during 2007. China began the process of renminbi revaluation with a small 2.1% move in July; future moves will be incremental. Over the next 12 months, the Chinese currency should appreciate another 5% against the dollar.

DETAILS OF THE U.S. OUTLOOK

Consumer Income and Spending

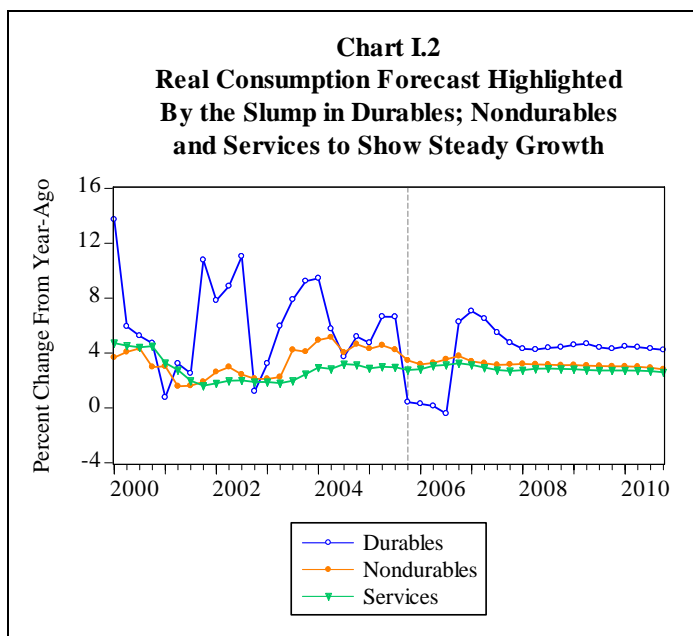
After 3.9% annualized growth in the third quarter, real consumer spending is projected to edge up at a miniscule 0.1% pace in the final quarter of 2005, its worst performance since a 0.3% decline in late 1991. The pause in growth is due to a sharp drop-off in light-vehicle sales following the successful "employee discount for everyone" sales campaigns of early summer. The surge in gasoline prices following Hurricane Katrina dealt a harsh blow to domestic automakers, as sales of gas-guzzling SUVs plummeted. The forecast anticipates that light-vehicle sales will drop from an annual rate of 17.9 million units in the third quarter to 15.7 million units in the fourth quarter, with light trucks accounting for most of the decline. The result could be even worse: light-vehicle sales fell to a seven-year low of 14.7 million in October, prompting automakers to sweeten incentives in mid-November. Better deals and a retreat in gasoline prices should spark a modest year-end recovery.

Annual light-vehicle sales are projected to decrease from 16.8 million units this year to 16.5 million in 2006, their lowest total since 1998. Rising interest rates, a cooling housing market, and a drop in home-equity cash-outs will restrain consumer spending on big-ticket items. Market saturation is another concern in the automotive market. From 2001 to 2005, the stock of vehicles has grown 2.2% annually, well ahead of the 1.2% growth of the driving-age population. With real incomes rising, light-vehicle sales should gradually recover after 2006, but it will be 2009 before total sales surpass their previous cyclical peak of 17.3 million units in 2000.

Excluding light vehicles, real consumer spending is projected to increase at a 2.7% annual rate in the fourth quarter, off slightly from the summer quarter's 3.1% pace. Despite the disruptions of hurricanes Katrina, Rita, and Wilma, the fall season is off to a strong start. Excluding autos and gasoline, retail sales increased a huge 1.1% in October, building on gains of 0.8% in both August and September. With the onset of colder weather, apparel sales were especially strong. As the holiday season begins, employment is rising, gasoline prices are quickly retreating, and consumer confidence is recovering. If core retail sales (excluding auto dealerships and gasoline stations) hold at their October level, this year's fourth-quarter sales gain will be a robust 7.2%—comparable to last year's and well above the 5.3% average over the past 10 years. It is unlikely that core retail sales will be sustained at October's pace, however, so the expectation for growth in the fourth quarter is 5.4% above the fourth quarter of 2004.

The average household energy bill will reach an annual rate of nearly \$4,800 this fall and winter, up 18% from a year earlier. Meanwhile, the share of household disposable income spent on energy will rise to 5.9%, the highest in two decades and 0.7 percentage point above its year-earlier level. As domestic refineries come back on-line and additional imports arrive, gasoline prices should drop to \$2.25/gallon by year-end. But natural gas prices will remain elevated through the winter months, running 53% above year-earlier levels in the January–March period. As the oil and gas supply situation improves over the next three years, prices will retreat and the share of disposable income spent on energy will decrease to 5.0% in 2007 and 4.3% in 2010.

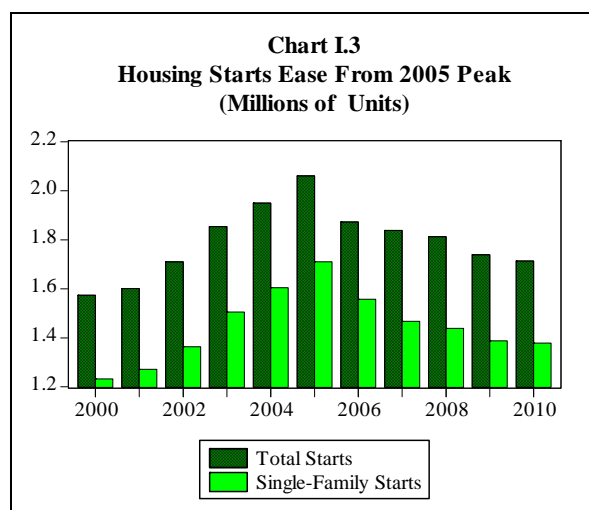
After gains of 3.9% in 2004 and 3.5% this year, real consumption growth will moderate to 3.0% in 2006 in response to rising interest rates and a cooling housing market. Growth in real household net worth will slow from 5.8% in 2005 to 2.8% next year, as home price appreciation subsides to its slowest pace in a decade.



Housing

Single-family starts are expected to set a new record during 2005. Single-family starts will soon reverse direction, however, falling 9.0% in 2006, 5.8% in 2007, and 2.0% in 2008. Starts will stabilize late in the decade. The mix of construction activity is expected to shift next year from housing to commercial and public structures.

While 1973 set the all-time record for total housing starts, this year's single-family starts total will blow away all prior records to claim the title. Single-family starts will reach 1.71 million, beating the 2004 tally by 6.6%. A chart showing single-family starts from 2003 to 2007 looks almost symmetrical, as the construction boom is expected to unravel at nearly the same speed at which it formed. Single-family starts totaled 1.51 million units in 2003, followed by 1.60 million in 2004; Global Insight expects 1.56 million in 2006 and 1.47 million in 2007. Single-family starts then average 1.40 million during 2008–10, more in line with the underlying demographic drivers.



Business Investment

Business fixed investment advanced 6.2% in the third quarter, its eighth consecutive quarterly gain, contributing 0.9 percentage point to real GDP growth. Spending on equipment and software (E&S) grew 8.9%, while nonresidential construction fell 1.4%. Spending on industrial equipment was particularly robust, posting a 20.5% surge, which offset its 18.9% drop in the second quarter. Industrial equipment has been posting good growth numbers since bottoming out in third-quarter 2003; the second-quarter drop appears to be an aberration caused partly by a plunge in engines and turbines, which had spiked in the first quarter. Global Insight expects a further string of positive-growth quarters for industrial equipment, with 8.0% gains projected for both the fourth quarter and 2006 overall.

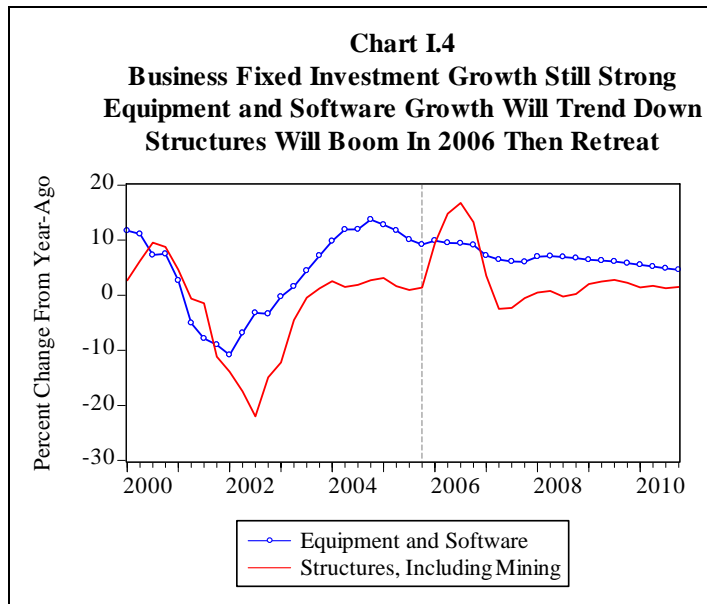
Spending on "other" equipment dropped 3.2% in the third quarter, after jumping 18.6% in the second, dragged down by weak spending on agricultural equipment, mining and oil-field machinery, and furniture and fixtures. Furniture and fixtures will rebound, while mining and oilfield equipment should post strong numbers because of high energy prices and repairs to rigs damaged by hurricanes Katrina and Rita. Growth from agricultural and construction machinery in 2006, though, is not expected.

Investment in software and communications equipment posted strong gains, yielding another strong quarter for information equipment. Real spending on computers grew 12.5%, but nominal spending declined. This decline is temporary, and computers should rebound smartly in the fourth quarter. Software should also continue to post solid gains. Information equipment has posted three consecutive double-digit quarterly gains, and the forecast calls for another one in the fourth quarter. Spending growth here is expected to be 13% in 2006, about the same as in 2004 and 2005.

Transportation equipment, dragged down by the Boeing strike, was flat in the third quarter. The latest word is that Boeing will make up lost production over several quarters, rather than over the next two quarters. The outlook for "other" transportation equipment has changed, based on a revised forecast for heavy duty truck deliveries. The fourth quarter should post strong spending on heavy duty trucks, despite sky-high diesel fuel prices. Next year, heavy truck sales will be greater than market fundamentals would indicate, because of looming EPA engine regulations that take effect in 2007. These regulations will spur sales in 2006, with the payback being a drop in 2007 sales.

In summary, equipment and software investment will continue to post steady growth. As a share of GDP, it is now 8%, its highest level since the fourth quarter of 2004.

For nonresidential construction, high energy prices and repair spending on hurricane-damaged rigs will drive the forecast for mines and wells. Spending here grows nearly 60% (annualized) in the first half of next year, but then starts to drop. So while spending on mines and wells rises 33% in 2006, it then drops 22% in 2007. The rest of nonresidential construction has stalled, mainly because of soaring input costs. Last year, surging steel prices dampened activity; prices for gypsum and cement and energy have taken a more recent toll. In the forecast, other nonresidential construction will get a small boost by reconstruction related to Katrina. In 2006, real spending on "buildings and other" grows 6.5%, while spending on public utilities climbs 9.0%. The numbers tail off after 2007, though, as the stimulus from hurricane reconstruction goes away.



Government

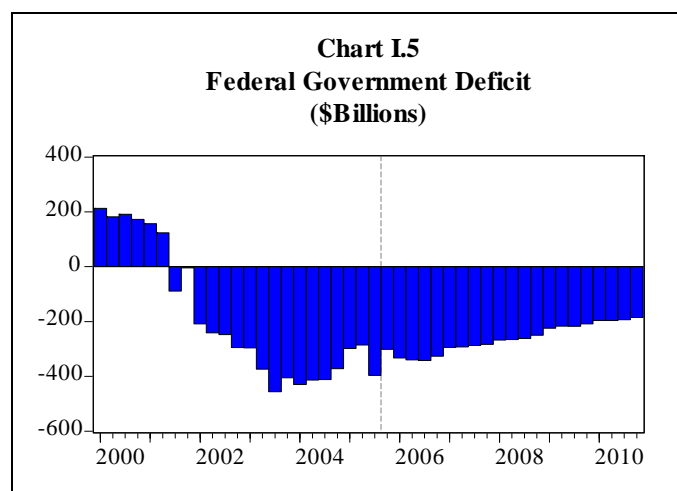
The Global Insight forecast for the unified federal deficit was bumped up about \$13 billion in fiscal 2006, to \$365 billion. This revision was connected with higher estimates of hurricane-related flood insurance payouts for fiscal 2006. No other change related to hurricane disaster relief or reconstruction was made to the spending assumptions. The flood insurance adjustment, however, lifted the cumulative costs of hurricane relief and reconstruction to \$110 billion in 2006–09.

When President Bush presented his 2006 budget in January 2005, his marching orders to Congress for long-term deficit reduction were relatively straightforward. In order to accommodate higher discretionary spending on defense and homeland security (a \$104 billion increment to the cumulative 2006–10 deficit), higher supplemental spending on the Iraq/Afghanistan wars (\$62 billion), extensions of the 2001 and 2003 tax acts (\$53 billion), and other savings and health insurance proposals (\$20.5 billion), Congress was charged with cutting \$138 billion in discretionary spending and \$68 billion in mandatory programs.

These goals were allocated across the various budget committees; however, by as early as March 2006, it became very clear that the fiscal 2005 deficit would wind up well below the White House projections of \$427 billion in January. The 2005 deficit turned out to be \$108 billion less than this target, almost entirely due to \$101 billion in higher tax revenues. With this much higher revenue base in 2005, the spending reductions required to hit the president's long-term deficit target in 2010 would be significantly lower. Despite this windfall, House-Senate budget committees had made little progress on key spending or tax bills by the summer of 2005.

The budget and tax reform processes were suddenly turned upside down when the August–September hurricanes hit, energy prices spiked, and avian flu hit the radar screen. As hurricane relief and reconstruction costs escalated, the budget ship went from slow to adrift, and by mid-November, the House budget committees had proposed about \$54 billion in spending reductions for 2006–10 as compared with the \$35 billion proposed by the Senate committees. With hurricane-related spending projected to bump emergency outlays nearly \$110 billion in the next four years, these proposals fell well short of what would have been required to keep the deficit under wraps and fund the extensions of the 2001–03 tax reductions.

The president's tax reform commission issued its final report on more comprehensive changes to simplify the tax code November 1. Although this package constitutes a bold, sweeping overhaul of the tax code, Congress is unlikely to consider dramatic changes to current tax laws in this current, highly partisan political climate. What appears to be emerging is a package of modest spending reductions in the next four years; however, these will likely not be enough to offset higher emergency spending levels in the short term. The inability to offset these will result in higher deficit projections for 2006–07, although deficits for these years will fall below what the president had posited in the January 2005 budget. Congress is expected to pass a short-term patch dealing with the expiration of the higher alternative minimum tax (AMT) exclusions at the end of 2005. Beyond that, Congress will punt, extending the 2001/03 tax acts; the tackling of more comprehensive tax reforms per the recommendations of the tax reform commission are likely to be deferred to 2006, when “calmer waters” will hopefully prevail.



International Trade

September's trade deficit surged to a record \$66.1 billion, with most of the month's unusual events yielding negative results. Exports fell \$2.8 billion, with aircraft and parts exports accounting for \$2.5 billion of the decline. Exports of cotton and chemicals slipped due to both port and production disruptions. Without hurricane- and strike-related disruptions, exports may have approached their August record. Imports rose by \$4.4 billion, with petroleum and the combination of electricity and natural gas each providing one-quarter of the increase. Consumer goods imports accounted for another 20%, but remained below prior peaks.

The September spike in the deficit should prove an aberration, although monthly shortfalls of more than \$60 billion are likely here to stay. Energy imports will remain high and even as oil prices recede, volume will replace price as a driver of nominal imports. And natural gas prices are still nearly 25% higher than their August levels. Better news is that aircraft exports not delivered during the Boeing strike will ship later, although making up for almost a month's output loss will take time.

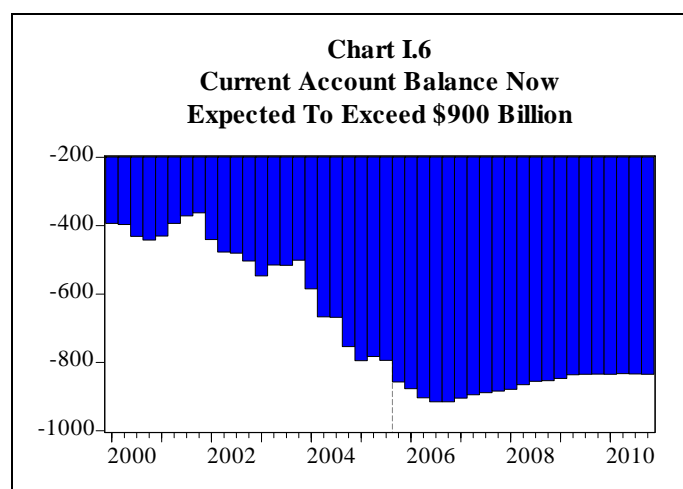
The advance release of third-quarter GDP data had net exports as a 0.1-percentage-point contributor to overall growth. However, actual September data (versus Bureau of Economic Analysis estimates) will ultimately wipe out those gains. Petroleum and non-oil industrial supplies were the sources of negative revisions.

Foreign trade will be a negative for GDP growth for the next year as rising imports of consumer goods, capital goods, and materials outweigh slow-but-steady export gains. Oscillating import growth requires

an acceleration to get back in balance. Rising oil volumes do not help. And the strengthening of the dollar against major trading partners' currencies does not help. Dollar weakness resumes in 2006, but from a higher starting point, leaving the currency stronger than a year earlier for much of next year. By 2007, cumulative weakness will leave the dollar 8.5% below its 2005 average; the decline reaches almost 12% in 2008, before the greenback stabilizes during the last two years of the forecast period.

Rising imports and sluggish exports should boost the real trade deficit until late 2006. The nominal trade balance will likely hit its nadir about the same time, but at higher levels than early 2005. The current-account deficit gets worse, reaching \$900 billion in 2006, up from \$807 billion in 2005. While some quarterly numbers will be worse, 2007 will be just a shade better than 2006. Progress on trimming the current-account shortfall accelerates in the final three years of the forecast period, with the 2008 deficit narrowing to \$860 billion; in the last two years of the decade, deficits average about \$835 billion.

Inventories are a buffer between production and sales; sustained periods of sluggish stock-building can trigger a catch-up phase in the inventory cycle. The next four quarters should be such a period. Retail inventory accumulation (excluding autos) was sluggish in mid-2005, averaging only half the speed of the prior two quarters. The next two quarters should see a recovery in stock-building toward the middle of those extremes. To accomplish this requires that import growth exceed sales growth; rebounding consumer demand will raise imports as well. For the next year, demand growth and inventory requirements reinforce each other, sucking in products from abroad.



Inflation

Short-term inflation concerns have been ameliorated in recent weeks, as crude oil and gasoline prices have decreased faster than originally anticipated. Natural gas prices remain high, however, with winter just ahead. In addition, strong third-quarter labor productivity growth, along with a decline in unit labor costs, have relieved some short-term inflation pressures.

The long-term inflation environment remains favorable for low core inflation rates as the Federal Reserve's "measured pace" of monetary tightening continues. Additionally, the Fed has set the stage for continued price stability with the nomination of Ben Bernanke, who is widely associated with the notion of inflation targeting, to succeed Chairman Greenspan as his final term ends on January 31.

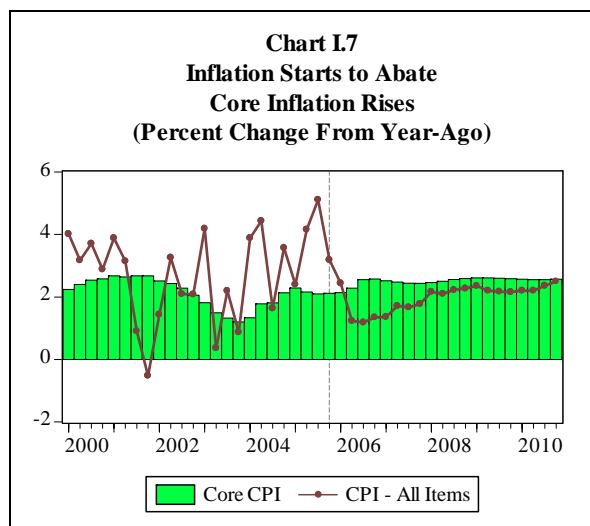
With energy price pressures abating, the head-line CPI inflation number is expected to run at an annual pace of 3.2% during the fourth quarter of 2005. The fourth-quarter outlook for CPI core inflation, which excludes energy and food price inflation, is expected to come in at a 2.4% annual rate.

The short-term alleviation in headline CPI inflation is good news for the longer term, as the risk of higher inflation expectations diminishes. Although, higher expected inflation in the present is not by itself a prophecy of higher future inflation, it does complicate life for the Fed as it tries to keep the inflation genie in the bottle.

Although the short-term cost environment has improved in recent weeks as energy prices have softened, there remains considerable cost pressure on CPI inflation from rapid advances in other input prices. After climbing at a seasonally adjusted annual rate of 2.5% in the third quarter, the current forecast calls for the producer price index for industrial commodities, excluding energy, to rise at a 7.6% rate in the fourth quarter and a 4.6% rate in the first quarter of 2006, before falling back over the rest of next year.

CPI inflation is expected at 3.4% in 2005, before falling to 2.6% in 2006. By comparison, CPI core inflation should run at 2.2% in 2005 and then edge a bit higher to 2.4% in 2006, just outside the Fed's 1.0–2.0% "comfort zone" in both years. By 2007, headline inflation drops to 1.5%, while CPI core inflation edges higher still to 2.5%, carrying with it some memory of the 2005 and early-2006 energy and crude materials price surge.

The long-term outlook remains favorable as monetary policy continues on a hawkish path. The Fed's statement following the November 1 meeting of the Federal Open Market Committee emphasized potential "inflation pressures" over the downside risks to growth. Moreover, as noted above, President Bush's nominee for Fed chairman has in the past advocated inflation targeting.



RISKS TO THE FORECAST

In addition to the baseline forecast just described, Global Insight provides two alternative forecast scenarios that can be viewed as more optimistic and more pessimistic outcomes relative to the baseline, but that also have a lower probability of occurring.

After several outstanding years, productivity growth has slowed, but will register a still-lively 2.5–3.0% rate in 2005. Can the U.S. economy sustain productivity growth rates this high for a long period of time? Many economists in academia believe that it can, and that the productivity boom may last another decade, if not longer. The optimistic scenario incorporates this view.

This alternative forecast also assumes no serious negative repercussions from the weaker dollar, and focuses on the momentum being created by the investment recovery. As the decade-long expansion of the 1990s showed, once an economy gets up a head of steam, it is difficult to slow it down. Indeed, the optimistic scenario resembles the late 1990s, when it seemed that the good times would last forever.

The optimistic assumptions produce a rosier outlook, with the U.S. economy growing 0.9 percentage point faster than in the baseline during both 2006 and 2007. Although economic growth and labor markets are stronger, inflation is lower because of the stronger dollar and the higher productivity gains. The lower inflation rate allows the Federal Reserve to keep the federal funds rate below the baseline value. Since productivity growth is stronger, potential GDP is higher and remains so throughout the forecast period. Job growth is also stronger. Nonfarm employment is 972,300 higher than in the baseline at the end of 2006 and 1.62 million higher at the end of 2007. Because job growth is strong, the unemployment rate stays below its baseline rate over the forecast period.

After a quarter-century of declining inflation, signs of a reacceleration are emerging. A doubling of oil prices, anemic domestic capacity expansion, a falling dollar, two-and-a-half years of accommodative monetary policy, and loose fiscal policy may have produced the conditions for a serious acceleration of inflation. The Federal Reserve is counting on continuing strong productivity gains, together with its "measured" tightening, to keep inflation at bay—but perhaps this is too sanguine a view.

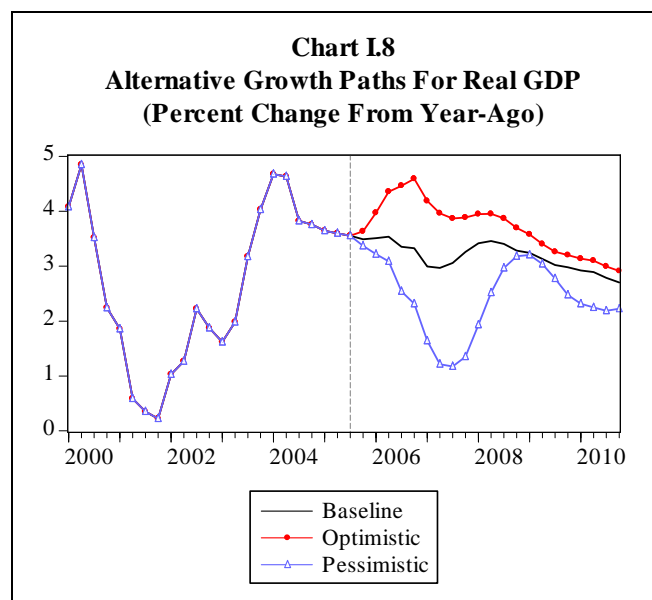
The pessimistic alternative assumes that there is less spare capacity than thought, both globally and in the U.S. economy. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. It assumes that the dollar weakens quickly as foreign investors take fright at the spiraling trade deficit, and thus lose confidence in the dollar. Interest rates rise as foreign investors diversify away from the dollar, and the federal deficit widens relative to the baseline. The falling dollar adds to the upward pressure on inflation.

In the baseline forecast, core inflation stays under 2.9% over the forecast period, allowing the Fed to slow the pace of interest rate hikes. In the pessimistic alternative, though, core inflation keeps gathering momentum, reaching 3.5% by the first quarter of 2006. The Fed responds by accelerating the pace of tightening. Despite the more aggressive stance, both the stock and bond markets slip on signs that the Fed may have let inflation build up an unstoppable momentum. The Fed cannot permit this acceleration to continue, and so it continues hiking interest rates. The federal funds rate averages 6.11% in the fourth quarter of 2006, compared with 4.75% in the baseline.

This simulation also has a housing price bubble that ends inauspiciously. The average price of existing single-family homes rises more than 15% above the baseline average by the first quarter of 2006, but then the bubble bursts. By early 2007, the average price tumbles more than 20% below its year-earlier value, and then stays below its base-line value throughout the forecast period. Housing starts tumble to 1.565 million units in 2007, compared with 1.838 million in the baseline forecast. Real spending on residential construction falls 7.2% in 2006 and 18.2% in 2007, compared with declines of 3.2% and 5.2% in the baseline.

Between the higher interest rates and persistently high energy prices, consumer confidence suffers. Consumers rein in discretionary spending and the U.S. economy slows. Core inflation stabilizes—but fails to retreat sufficiently, worrying the Federal Reserve. At the same time, hiring falters, causing the unemployment rate to climb. The Fed, forced to choose between fighting inflation and encouraging economic and employment growth, focuses on the long-term consequences of its policy and chooses to battle inflation—and, in fact, inflation eventually tapers off. Debt-laden consumers retrench further. Finally, early in 2008, with the unemployment rate near 6.00% and the federal funds rate at 7.75%, the Fed decides to hold. With the weaker dollar boosting trade, GDP growth begins to accelerate, bringing the unemployment rate down. As investment activity picks up, potential output increases relative to actual output, easing the upward pressure on prices.

The economy does not sink into recession in the pessimistic alternative, but merely fails to come as close to its potential as in the baseline, with GDP growth coming in 0.6 percentage point below the baseline rate in 2006 and 1.8 percentage points below the baseline in 2007. Production shifts from satisfying domestic demand to serving foreign demand, which responds strongly to the weaker dollar. The ground lost relative to the baseline is never made up, though, and real GDP is more than 5.0% below its baseline level at the end of 2015.



A summary of the U.S. forecast is contained in Appendix 1.

WISCONSIN OUTLOOK

The outlook continues to be positive for employment and personal income growth in the State over the next several years. While short term projections have been revised down slightly, they remain positive. Also, the Wisconsin economy will be less cyclical than the nation's by avoiding both the immediate loss associated with the hurricanes and the additional spending associated with the recovery.

On the employment front, rising energy costs, a strengthening dollar over the past year, and continued strong productivity growth have slightly weakened the forecast for Wisconsin employment growth in the near term. Three months ago the outlook for employment growth this year was pegged at 0.9%; we have lowered the employment growth projection for the current forecast to 0.8% due to weaker than expected employment growth over the past several months.

Manufacturing employment growth is likely to remain problematic in the face of high energy costs, a strong dollar, increasing productivity, and continued global competition. This is especially true for Wisconsin and other Midwest states. A recent study of energy markets and the Midwest economy¹ suggests that the Midwest region (defined as the Chicago Federal Reserve states of Illinois, Indiana, Iowa, Michigan, and Wisconsin) may feel the effects of rising energy prices slightly more than the nation as a whole because the region has increased its share of energy intensive industries. In addition, the region is highly reliant on natural gas, so volatility and price increases in this fuel should bear our particular attention. The study also singled out Indiana and Wisconsin as states that may be more significantly impacted by higher fuel prices.

Over the longer term, expectations for employment growth over the next five years have been lowered due to persistently weak manufacturing employment growth. Total employment growth should remain positive with annual rates of 0.9% to 1.4% expected over the next four years.

The outlook continues to be encouraging for living standards of Wisconsin residents based on personal income growth. Growth in Wisconsin personal income is expected to average 5.1% this year and 5.7% next year. In the short term, a combination of downwardly revised income growth over the past three years, slightly lowered expectations for employment growth, and higher inflation has also resulted in a lower forecast for total inflation-adjusted personal income growth this year (2.3%) relative to three months ago (3.3%). However, the longer term expectations for income growth are little changed from three months ago, ranging from 3.1% to 3.9% (inflation adjusted) over the next four years. On average, real per capita income growth in Wisconsin is expected to exceed real per capita income growth in the nation by about 0.19% annually from 2007 to 2010.

Recent Evidence

In the third quarter of 2005, five industries posted employment gains over the second quarter, six posted declines, and one showed no change in employment. The industries that added employment were Financial Activities (+300), Professional and Business Services (+4,300), Leisure and Hospitality Services (+2,200), Other Services (+2,000), and State and Local Government (+1,700). Industries with employment declines were Natural Resources and Mining (-200), Construction (-1,200), Manufacturing (-1,100), Information (-1,000), Education and Health Services (-500), and Federal Government (-200). Employment in Trade, Transportation, and Utilities was unchanged. Total Private employment advanced by 4,700, and total nonfarm employment advanced by 6,300.

¹ Energy Markets and the Midwest Economy, Richard H. Mattoon, *Economic Perspectives*, 4Q/2005, Federal Reserve Bank of Chicago.

Overall, recent monthly data from the Bureau of Labor Statistics indicates that earlier forecasts of employment may have been slightly too high, resulting in a downward revision to our employment growth projection for 2005. First, the initial annualized employment growth in the second quarter was revised from 1.6% to 1.4%. Second, the forecasted employment growth of 1.3% for the third quarter proved to be too optimistic as the actual growth came in at 0.9%. Manufacturing employment growth continues to disappoint with negative numbers, knocking 0.2 percentage points from employment growth projections of the August forecast.

The latest estimates for Wisconsin personal income were released by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA) on September 28, 2005. The data release presented preliminary estimates for the second quarter of this year along with revisions to prior estimates for all quarters and years going back to 2002.

On net the revisions were small. Total personal income was revised up in 2002 by an average of 0.25% per quarter and down in 2003 and 2004 by nearly 0.30% per quarter. The first quarter was revised down by 0.875% or \$1.6 billion. This was not unexpected because previous estimates for wages and salaries were singled out as being too high, and indeed, wages and salaries were revised down in the first quarter.

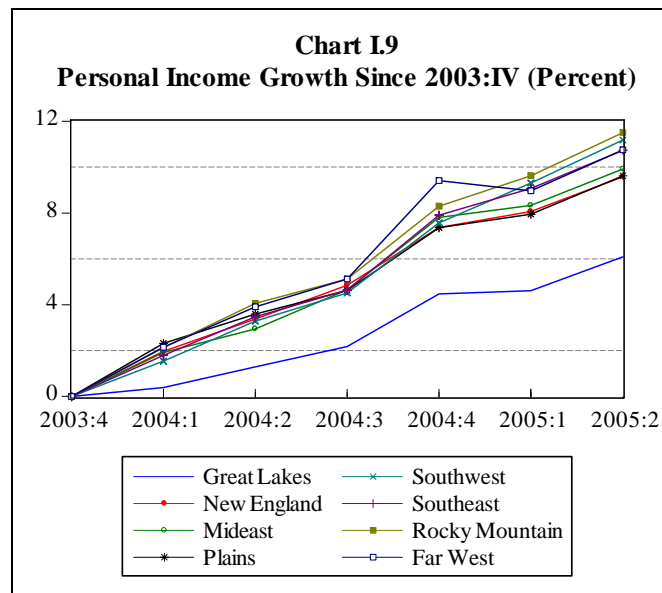
Other notable revisions were made to several components of total personal income. The residence adjustment was revised down by nearly 3%; this means that cross-border job commuting from Wisconsin to Illinois and Minnesota is not as prevalent as previously thought. Nonfarm proprietors' income was revised down by significant amounts (in the range of \$1.3 to \$1.8 billion, or 12%-13% over three years) and property income, made up of dividends, interest, and rental income, was revised up by an average of \$0.475 billion per quarter over the last 13 quarters.

The average annual growth rate for Wisconsin personal income for the period 2002:1 to 2005:1 was 4.6% prior to the revisions; after revisions it is now 4.1%. The first estimates of total personal income in the second quarter show an annualized growth rate of 5.5%, and annualized wage and salary growth of 4.8%. On a year-over-year basis, total personal income grew 5.9% in the second quarter; wages and salaries grew by 6.4%.

In the BEA news release, the following paragraph was notable for the attention drawn to the Great Lakes Region and to Wisconsin. The Great Lakes Region, composed of the states of Illinois, Indiana, Michigan, Ohio, and Wisconsin, is one of eight BEA regions of the U.S. used for reporting and analyzing economic conditions. (The BEA Great Lakes Region differs from the Chicago Fed region.)

"For the last year and a half the Great Lakes region has persisted on a distinctly slower personal income growth trajectory than the rest of the country. Even the strongest state within the Great Lakes, Wisconsin, is growing slower than the Plains regional average (the Plains being the second weakest region). Since the fourth quarter of 2003 earnings by place of work has grown only 6.3 percent in the Great Lakes versus 11.8 percent in the rest of the country, largely because of weakness in the region's durable goods manufacturing industry."

The paragraph was accompanied by the following chart:

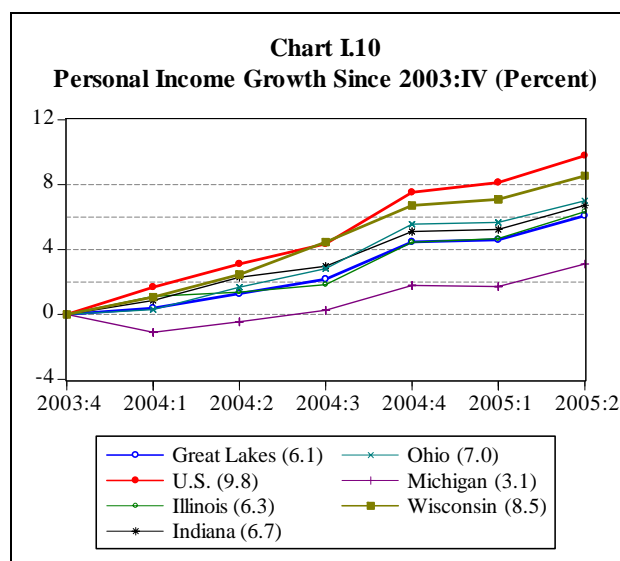


There is more to the story, however. When we compare personal income growth in Wisconsin with each of the states in the Great Lakes Region, we can note, as BEA stated, that Wisconsin has the strongest growth of the five states. Wisconsin, however, with a cumulative growth of 8.5% over six quarters, is closer to the U.S. cumulative growth of 9.8%, than it is to the Great Lakes Region cumulative growth of 6.1%. Note that BEA speaks of growth in earnings, but charts personal income growth.

Chart I.10 is a modification of the BEA chart, showing personal income growth for the U.S., the Great Lakes Region, and the five states in the region. There are two new perspectives from this chart.

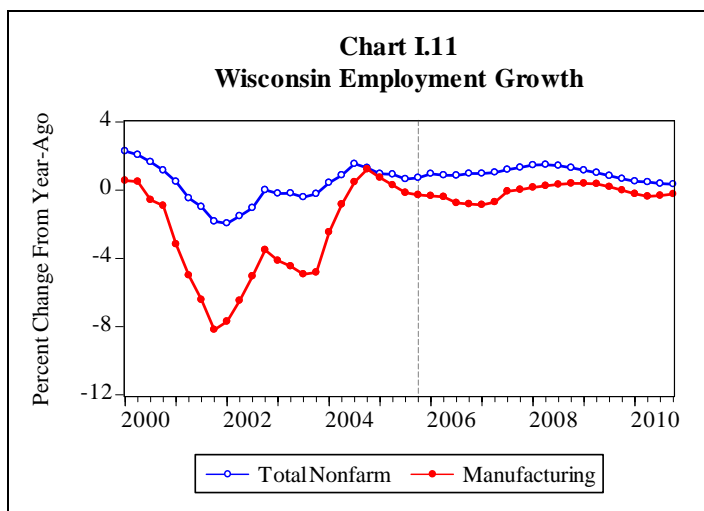
First, Wisconsin and Michigan are the outliers in regional growth rates. Wisconsin is growing more strongly while Michigan is growing weakly. Illinois, Indiana, and Ohio are bunched closely together when measured by personal income growth. Michigan, because of its size (over 21% of regional income) can more easily affect the regional average than can Wisconsin (under 12% of regional income).

Second, personal income growth in Wisconsin was closer to the U.S. average for the period 2003:4 to 2004:4. It is only during the last two quarters that Wisconsin's income growth has noticeably slowed relative to U.S. income growth. The last two quarters are also subject to future revisions as new data becomes available to BEA, probably more so than the previous quarters.



Employment Outlook

The forecast calls for employment growth of 0.7% (annual rate) in the fourth quarter. Employment growth at rates at or below 1% should continue through next year. Total nonfarm employment is expected to advance by 0.8% in 2005 and by 0.9% in 2006. As energy prices stabilize and drift lower, and as the dollar falls as assumed in the national forecast, employment growth in Wisconsin should pick up to 1.1% in 2007, and 1.4% in 2008. The average annual rate of employment growth for the years 2006 through 2010 is expected to be 0.9%.



By industry, the forecast projects that virtually all of the employment growth will occur in the service producing sector. In the goods-producing sector, manufacturing employment faces strong headwinds in the form of competition from cheaper foreign labor, the substitution of capital for labor underlying the strong productivity growth trend, and rising energy prices. Construction employment is also likely to see little growth, as the housing boom fades in response to higher interest rates. Manufacturing employment is projected to grow by 0.1% in 2005, and to decline by 0.6% in 2006, followed by another decline of 0.1% in 2007. Goods-producing industries (mining, manufacturing, and construction) are expected to decline by an annual average of 0.1% from 2006 to 2010. Construction employment will likely grow 4.2% this year, and then decline by 0.6% in 2006 and 0.1% in 2007.

In the service sector, the fastest growth is expected in Education and Health Services employment, where annual growth is forecast to average 2.0% this year. Education and Health Services employment is expected to post average annual growth of 2.7% from 2006 to 2010, compared to 1.2% per year for all service industries combined. Health service employment will benefit from both demographically driven demand and expanding technological opportunities.

Employment in Professional and Business Services is also expected to experience above average growth, despite the apparent weakness in the first quarter of this year, when employment contracted by 5.5% (annual rate). Business and Professional Services employment is expected to expand by 1.3% in 2005 and by 2.7% in 2006. Leisure and Hospitality Services employment, after having advanced by more than 2.0% in 2003 and 2004, will slow to 1.5% this year, and to growth rates averaging 1.1% in the future in response to demographics and higher energy prices.

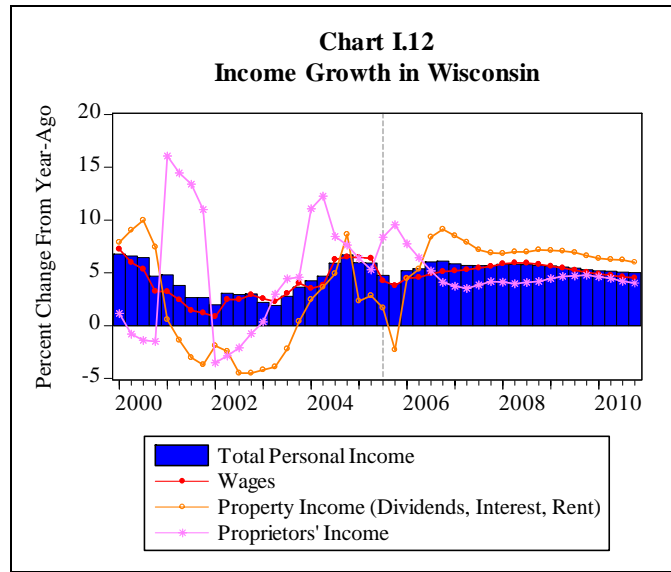
Details of the Wisconsin employment forecast are presented in Appendices 2 and 3.

Income Outlook

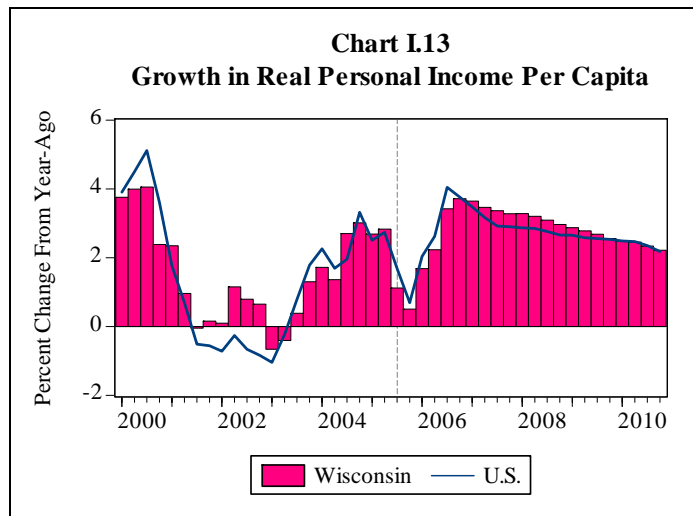
Growth in Wisconsin personal income surged in the last two quarters of 2004. In the third quarter, total personal income grew at an 8.1 % annualized rate, powered by a surge in wage income which increased at a 12.6% rate. In the fourth quarter, total personal income grew at an even faster 8.9% annualized rate. In that quarter the strength was concentrated in property income which increased at a 23.3% annual rate. Information from 2004 individual income tax returns confirms that income did indeed surge in 2004, with Wisconsin adjusted gross income (AGI) growing by 5.7%, the best performance since 2000, when AGI grew by 6.7%.

Estimates of income in the first and second quarter indicate a deceleration in income growth, due in large measure to the "loss" of the \$1.1 billion from the one-time Microsoft dividend. Year-over-year growth was still strong however, 6.0% and 5.9% in the first and second quarter, respectively, compared to 5.9% and 6.7% in the third and fourth quarters of 2004. Growth in wage and salary income in the second quarter 2005 was estimated to be 4.8%.

Growth in Wisconsin personal income is expected to average 5.1% this year and 5.7% next year. Wage and salary income is expected to grow by 5.2% in 2005 and by 4.8% in 2006 in response to weaker employment growth. In the longer term, Wisconsin personal income is expected to average 5.5% annually from 2006 to 2010. Proprietors' income is expected to grow by 7.4% this year after growing by 9.8% in 2004. Proprietors' income will advance by 5.8% in 2006. Property income (dividends, interest, and rent) will grow by 1.1% this year and by 6.9% in 2006 after growth of 4.9% in 2004. Average annual growth of property income from 2006 to 2010 is expected to be 7.0%.



The forecast remains a positive one for living standards of Wisconsin residents. Nominal income growth above 5% will translate into real income growth above 3% given the 2% forecast of inflation (as measured by the NIPA chain weighted price index for consumer purchases). On a per capita basis, real income is forecast to increase by 1.8% this year and by 2.8% in 2006. On average, real per capita income growth in Wisconsin is expected to exceed real per capita income growth in the nation by about 0.19% annually from 2007 to 2010, after having lost ground from 2003 to 2006. As noted in Chart I.13, per capita income growth in Wisconsin is projected to lag the nation in 2006, but surpass the nation in 2007 and 2008.



Details of the Wisconsin income forecast are presented in Appendices 4 and 5.

APPENDICES

Appendix 1: U. S. Economic Forecast

Appendix 2: Wisconsin Employment Forecast: Industry Detail (Annual)

Appendix 3: Wisconsin Employment Forecast: Industry Detail (Quarterly)

Appendix 4: Wisconsin Manufacturing Employment Forecast: Industry Detail (Annual)

Appendix 5: Wisconsin Manufacturing Employment Forecast: Industry Detail (Quarterly)

ECONOMIC OUTLOOK - APPENDICES

APPENDIX 1 U.S. ECONOMIC FORECAST GLOBAL INSIGHT

	2003	2004	2005	2006	2007	2008	2009
Real GDP and its Components (Billions of Chain Weighted 2000 Dollars)							
Gross Domestic Product	10,320.6	10,755.7	11,139.8	11,521.9	11,875.7	12,278.3	12,657.8
% Change	2.7	4.2	3.6	3.4	3.1	3.4	3.1
Consumption	7,306.5	7,588.6	7,851.4	8,087.4	8,356.6	8,615.2	8,877.7
% Change	2.9	3.9	3.5	3.0	3.3	3.1	3.0
Investment (Incl. Inventory)	1,617.4	1,809.9	1,915.6	2,035.6	2,066.3	2,143.9	2,208.0
% Change	3.9	11.9	5.8	6.3	1.5	3.8	3.0
Nonresidential Structures	243.1	248.4	252.8	287.1	285.7	286.7	293.5
% Change	-4.2	2.2	1.8	13.6	-0.5	0.3	2.4
Business Equipment	846.8	947.6	1,051.1	1,150.8	1,225.1	1,310.3	1,391.2
% Change	3.2	11.9	10.9	9.5	6.5	6.9	6.2
Residential Fixed	509.4	561.8	601.1	581.8	551.4	546.9	536.1
% Change	8.4	10.3	7.0	-3.2	-5.2	-0.8	-2.0
Inventory Change	15.5	52.0	17.8	31.4	36.2	46.7	48.3
Exports	1,031.2	1,117.9	1,194.3	1,268.9	1,382.2	1,526.5	1,673.1
% Change	1.8	8.4	6.8	6.3	8.9	10.4	9.6
Imports	1,552.6	1,719.2	1,820.4	1,912.7	2,002.9	2,098.6	2,210.2
% Change	4.6	10.7	5.9	5.1	4.7	4.8	5.3
Federal Government	687.8	723.7	744.8	766.2	770.5	777.3	782.9
% Change	6.9	5.2	2.9	2.9	0.6	0.9	0.7
State and Local Government	1,223.3	1,228.4	1,249.3	1,274.9	1,305.3	1,324.1	1,344.0
% Change	0.6	0.4	1.7	2.1	2.4	1.4	1.5
GDP (Current Dollars)	10,971.3	11,734.3	12,486.2	13,247.9	13,920.1	14,704.5	15,516.6
% Change	4.8	7.0	6.4	6.1	5.1	5.6	5.5
Employment, Unemployment, Wages and Prices							
Nonfarm Employment (Millions)	130.0	131.5	133.6	135.7	137.6	139.3	140.7
% Change	-0.3	1.1	1.6	1.6	1.4	1.3	1.0
Unemployment Rate (%)	6.0	5.5	5.1	4.8	4.9	4.7	4.6
Compensation per Hour (% Change)	4.0	4.5	5.7	4.0	4.2	4.5	4.6
Consumer Price Index (% Change)	2.3	2.7	3.4	2.6	1.5	2.0	2.2
Producer Price Index (% Change)	5.3	6.2	7.6	4.0	-3.3	-0.6	0.2
GDP Price Deflator (% Change)	2.0	2.6	2.8	2.6	1.9	2.2	2.4
Industrial Production (% Change)	0.0	4.1	2.7	3.0	2.5	3.3	3.5
Financial Markets							
Money Supply (M2) (\$ Billions)	6,004.6	6,277.3	6,531.9	6,743.2	6,963.1	7,279.9	7,637.5
% Change	6.9	4.5	4.1	3.2	3.3	4.5	4.9
Prime Commercial Rate (%)	4.1	4.3	6.2	7.7	7.8	7.8	8.0
Three Month Treasury Bills (%)	1.0	1.4	3.2	4.5	4.6	4.7	4.9
Ten-Year Treasury Note Yield (%)	4.0	4.3	4.3	5.2	5.3	5.4	5.7
General Obligation AAA Municipals (%)	4.5	4.5	4.3	5.1	5.2	5.4	5.7
Thirty-Year Mortgage Rate (%)	5.8	5.8	5.9	6.8	6.9	7.0	7.3
S&P 500 Stock Index	963.7	1,130.6	1,204.7	1,268.7	1,292.0	1,380.8	1,468.3
Income, Profits and Savings							
Personal Income (\$ Billions)	9,169.1	9,713.3	10,268.8	10,938.0	11,582.6	12,268.7	12,989.6
% Change	3.2	5.9	5.7	6.5	5.9	5.9	5.9
Personal Income (\$ 2000) (\$ Billions)	8,689.1	8,972.5	9,226.5	9,600.3	9,987.4	10,355.1	10,715.2
% Change	1.3	3.3	2.8	4.1	4.0	3.7	3.5
Savings Rate (%)	2.1	1.7	-0.1	0.8	0.8	1.1	1.2
Corporate Profits Before Tax (\$ Billions)	1,031.8	1,161.5	1,333.8	1,492.8	1,495.9	1,537.2	1,573.6
% Change	16.4	12.6	14.8	11.9	0.2	2.8	2.4

ECONOMIC OUTLOOK - APPENDICES

APPENDIX 2
WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL
(THOUSANDS OF WORKERS)

	History			Forecast				
	2002	2003	2004	2005	2006	2007	2008	2009
Total Nonfarm	2,782.3	2,775.3	2,804.1	2,826.9	2,852.7	2,885.0	2,926.2	2,953.2
% Change	-1.1	-0.3	1.0	0.8	0.9	1.1	1.4	0.9
Private Nonfarm	2,367.6	2,362.4	2,392.2	2,414.0	2,437.3	2,466.6	2,506.1	2,531.6
% Change	-1.4	-0.2	1.3	0.9	1.0	1.2	1.6	1.0
Natural Resources & Mining	3.8	3.8	3.8	3.5	3.6	3.8	3.9	3.9
% Change	-1.9	-1.5	0.7	-6.1	2.9	4.6	2.3	-0.1
Construction	124.1	124.1	126.2	131.5	130.7	130.6	131.6	131.9
% Change	-1.0	0.0	1.8	4.2	-0.6	-0.1	0.8	0.2
Manufacturing	528.3	504.1	502.0	502.7	499.8	497.8	499.2	500.4
% Change	-5.7	-4.6	-0.4	0.1	-0.6	-0.4	0.3	0.2
Trade, Transportation & Utilities	536.8	536.3	540.1	539.9	543.1	549.6	555.6	558.0
% Change	-2.0	-0.1	0.7	0.0	0.6	1.2	1.1	0.4
Information	51.2	50.3	50.0	50.6	51.1	52.1	53.0	53.7
% Change	-3.9	-1.6	-0.8	1.3	1.0	1.9	1.7	1.2
Financial Activities	153.8	156.9	157.6	158.6	161.3	163.5	165.3	166.5
% Change	1.3	2.0	0.5	0.6	1.7	1.3	1.1	0.7
Professional & Business Services	239.9	244.4	250.5	253.8	260.6	266.3	275.4	280.5
% Change	0.5	1.9	2.5	1.3	2.7	2.2	3.4	1.9
Education & Health Services	357.2	364.6	376.2	383.6	393.0	405.0	419.2	429.8
% Change	2.2	2.1	3.2	2.0	2.5	3.1	3.5	2.5
Leisure & Hospitality	240.4	245.5	250.5	254.4	256.0	258.3	261.8	265.1
% Change	0.8	2.1	2.1	1.5	0.6	0.9	1.4	1.3
Other Services	132.3	132.7	135.3	135.4	137.9	139.7	141.1	141.9
% Change	0.7	0.3	2.0	0.1	1.8	1.2	1.1	0.5
Government	414.7	412.8	411.9	412.8	415.4	418.5	420.1	421.5
% Change	0.2	-0.5	-0.2	0.2	0.6	0.7	0.4	0.3
Federal Government	29.9	29.8	29.5	29.2	29.4	29.6	29.7	29.8
% Change	-0.6	-0.3	-1.1	-1.0	0.8	0.7	0.2	0.4
State & Local Government	384.8	383.0	382.4	383.7	386.0	388.9	390.4	391.8
% Change	0.3	-0.5	-0.2	0.3	0.6	0.7	0.4	0.3
Household Survey Employment Measures								
Labor Force	3,037.9	3,068.7	3,071.2	3,044.1	3,033.9	3,064.7	3,097.6	3,120.8
% Change	0.2	1.0	0.1	-0.9	-0.3	1.0	1.1	0.7
Employment	2,877.0	2,896.7	2,919.2	2,902.1	2,896.6	2,927.8	2,969.3	2,998.0
% Change	-0.8	0.7	0.8	-0.6	-0.2	1.1	1.4	1.0
Unemployment Rate (%)	5.3	5.6	5.0	4.7	4.5	4.5	4.1	3.9

ECONOMIC OUTLOOK - APPENDICES

APPENDIX 3 WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL (THOUSANDS OF WORKERS)

Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2004:4	2005:1	2005:2	2005:3	2005:4	2006:1	2006:2	2006:3
Total Nonfarm	2,815.8	2,815.2	2,825.0	2,831.3	2,836.0	2,842.2	2,849.5	2,855.6
% Change	0.4	-0.1	1.4	0.9	0.7	0.9	1.0	0.9
Private Nonfarm	2,402.8	2,400.8	2,414.0	2,418.7	2,422.7	2,428.1	2,434.7	2,439.8
% Change	0.5	-0.3	2.2	0.8	0.7	0.9	1.1	0.8
Natural Resources & Mining	3.7	3.4	3.7	3.5	3.5	3.6	3.6	3.7
% Change	-13.2	-25.9	30.1	-13.8	1.6	3.6	4.0	6.5
Construction	125.8	130.1	132.9	131.7	131.4	131.1	130.7	130.6
% Change	-0.7	14.4	8.7	-3.5	-1.0	-0.8	-1.2	-0.3
Manufacturing	503.5	503.7	503.1	502.0	502.1	501.9	501.1	498.2
% Change	0.6	0.1	-0.4	-0.9	0.0	-0.1	-0.7	-2.3
Trade, Transportation & Utilities	543.5	540.0	540.0	540.0	539.6	540.5	542.1	544.1
% Change	2.1	-2.5	0.0	0.0	-0.3	0.7	1.2	1.5
Information	49.9	50.8	50.9	49.9	50.8	50.8	50.9	51.3
% Change	2.2	7.7	0.8	-7.9	7.1	-0.1	1.0	3.2
Financial Activities	157.1	157.7	158.4	158.7	159.6	160.3	161.0	161.7
% Change	-0.6	1.4	1.8	0.8	2.3	2.0	1.7	1.6
Professional & Business Services	252.1	248.5	252.4	256.7	257.6	258.7	260.2	261.2
% Change	1.5	-5.5	6.5	6.9	1.4	1.8	2.2	1.7
Education & Health Services	380.7	382.5	383.3	382.8	385.6	388.5	391.5	394.5
% Change	2.7	1.9	0.9	-0.6	3.0	3.1	3.1	3.0
Leisure & Hospitality	250.7	249.2	254.9	257.1	256.2	255.8	255.7	256.1
% Change	-4.1	-2.3	9.5	3.4	-1.3	-0.7	-0.1	0.5
Other Services	135.8	134.8	134.3	136.3	136.4	136.8	137.8	138.4
% Change	-2.7	-3.0	-1.3	6.1	0.1	1.3	3.1	1.7
Government	413.0	414.5	411.0	412.6	413.3	414.1	414.9	415.8
% Change	-0.4	1.4	-3.3	1.6	0.6	0.8	0.7	0.9
Federal Government	29.4	29.5	29.2	29.0	29.1	29.3	29.4	29.5
% Change	-0.9	0.5	-4.0	-1.8	0.4	2.9	1.9	0.9
State & Local Government	383.5	385.0	381.9	383.6	384.2	384.9	385.4	386.3
% Change	-0.5	1.5	-3.2	1.9	0.6	0.7	0.6	0.9
Household Survey Employment Measures								
Labor Force	3,068.3	3,066.7	3,048.8	3,035.8	3,025.2	3,024.3	3,030.6	3,036.5
% Change	-0.3	-0.2	-2.3	-1.7	-1.4	-0.1	0.8	0.8
Employment	2,925.5	2,920.2	2,907.8	2,895.1	2,885.5	2,886.7	2,893.6	2,899.4
% Change	0.4	-0.7	-1.7	-1.7	-1.3	0.2	1.0	0.8
Unemployment Rate (%)	4.7	4.8	4.6	4.6	4.6	4.5	4.5	4.5

APPENDIX 4

WISCONSIN INCOME SUMMARY
PERSONAL INCOME BY MAJOR SOURCE
(\$ Billions)

	History			Forecast				
	2002	2003	2004	2005	2006	2007	2008	2009
Total Personal Income	163.273	167.586	176.636	185.720	196.290	207.549	219.554	231.598
% Change	2.8	2.6	5.4	5.1	5.7	5.7	5.8	5.5
Wages and Salaries	91.626	94.363	99.120	104.262	109.237	115.125	121.903	128.420
% Change	2.2	3.0	5.0	5.2	4.8	5.4	5.9	5.3
Supplements to Wages and Salaries	21.249	23.152	24.985	26.822	28.206	29.334	30.724	32.149
% Change	12.6	9.0	7.9	7.4	5.2	4.0	4.7	4.6
Proprietor's Income	10.059	10.372	11.390	12.233	12.948	13.443	13.994	14.647
% Change	-2.3	3.1	9.8	7.4	5.8	3.8	4.1	4.7
Rental Income	2.815	2.391	2.456	2.018	2.368	2.757	3.083	3.433
% Change	-7.1	-15.0	2.7	-17.9	17.4	16.4	11.8	11.3
Personal Dividend Income	7.997	8.237	9.754	9.956	10.971	11.920	12.493	13.061
% Change	10.2	3.0	18.4	2.1	10.2	8.7	4.8	4.6
Personal Interest Income	17.520	16.996	16.776	16.986	17.969	19.014	20.474	22.055
% Change	-7.9	-3.0	-1.3	1.3	5.8	5.8	7.7	7.7
Current Transfer Receipts	23.041	23.542	24.298	25.772	27.823	29.834	31.513	33.146
% Change	7.6	2.2	3.2	6.1	8.0	7.2	5.6	5.2
Residence Adjustment	2.919	2.988	3.098	3.312	3.545	3.812	4.118	4.429
% Change	1.8	2.4	3.7	6.9	7.0	7.5	8.0	7.6
Contributions to Government Social Ins.	13.953	14.454	15.240	15.980	16.778	17.691	18.746	19.742
% Change	3.2	3.6	5.4	4.9	5.0	5.4	6.0	5.3
Personal Tax & Nontax Payments	19.516	18.795	19.552	21.949	23.248	25.480	26.956	28.931
% Change	-11.4	-3.7	4.0	12.3	5.9	9.6	5.8	7.3
Disposable Personal Income	143.757	148.791	157.084	163.771	173.043	182.069	192.598	202.667
% Change	5.0	3.5	5.6	4.3	5.7	5.2	5.8	5.2

Related Income Measures

Personal Income (2000 \$) (\$ Billions)	157.688	158.815	163.165	166.882	172.284	178.965	185.31	191.047
% Change	1.3	0.7	2.7	2.3	3.2	3.9	3.5	3.1
Per Capita Income (2000 \$)	29,255	29,301	29,945	30,478	31,321	32,396	33,412	34,319
% Change	0.7	0.2	2.2	1.8	2.8	3.4	3.1	2.7
Per Capita Income (\$)	30,291	30,919	32,418	33,918	35,685	37,570	39,586	41,603
% Change	2.1	2.1	4.8	4.6	5.2	5.3	5.4	5.1
Per Capita Income as a Percent of U.S.	98.4	98.3	98.2	98.0	97.7	98.0	98.3	98.5

ECONOMIC OUTLOOK - APPENDICES

APPENDIX 5

WISCONSIN INCOME SUMMARY PERSONAL INCOME BY MAJOR SOURCE (\$ Billions) Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2004:3	2004:4	2005:1	2005:2	2005:3	2005:4	2006:1	2006:2
Total Personal Income	177.982	181.808	182.453	184.929	186.464	189.034	191.942	194.908
% Change	8.1	8.9	1.4	5.5	3.4	5.6	6.3	6.3
Wages and Salaries	100.499	102.053	102.580	103.786	104.760	105.921	107.188	108.527
% Change	12.6	6.3	2.1	4.8	3.8	4.5	4.9	5.1
Supplements to Wages and Salaries	25.335	25.703	26.293	26.629	26.997	27.367	27.747	28.097
% Change	12.0	5.9	9.5	5.2	5.6	5.6	5.7	5.1
Proprietor's Income	11.413	11.484	11.835	12.146	12.369	12.581	12.753	12.928
% Change	-4.2	2.5	12.8	10.9	7.6	7.0	5.6	5.6
Rental Income	2.261	2.314	2.127	1.888	2.022	2.033	2.237	2.305
% Change	-43.0	9.8	-28.7	-37.9	31.5	2.3	46.4	12.9
Personal Dividend Income	9.534	11.463	9.611	9.822	10.082	10.309	10.564	10.828
% Change	17.6	109	-50.6	9.1	11.0	9.3	10.2	10.4
Personal Interest Income	16.949	16.510	16.622	16.952	17.122	17.250	17.507	17.815
% Change	3.5	-10.0	2.7	8.2	4.1	3.0	6.1	7.2
Current Transfer Receipts	24.331	24.691	25.321	25.649	25.794	26.324	27.015	27.566
% Change	1.4	6.1	10.6	5.3	2.3	8.5	10.9	8.4
Residence Adjustment	3.091	3.187	3.232	3.285	3.337	3.393	3.451	3.513
% Change	3.7	13.0	5.8	6.7	6.4	6.9	7.1	7.3
Contributions to Government Social Ins.	15.431	15.597	15.818	15.939	16.019	16.143	16.518	16.671
% Change	11.1	4.4	5.8	3.1	2.0	3.1	9.6	3.8
Personal Tax & Nontax Payments	19.826	20.278	21.395	21.848	22.198	22.354	22.564	23.016
% Change	13.2	9.4	23.9	8.7	6.6	2.8	3.8	8.3
Disposable Personal Income	158.156	161.53	161.058	163.081	164.266	166.680	169.379	171.892
% Change	7.4	8.8	-1.2	5.1	2.9	6.0	6.6	6.1

Related Income Measures

Personal Income (2000 \$) (\$ Billions)	164.063	166.299	165.963	166.899	166.722	167.944	169.521	171.432
% Change	6.5	5.6	-0.8	2.3	-0.4	3.0	3.8	4.6
Per Capita Income (2000 \$)	30,091	30,463	30,364	30,499	30,430	30,618	30,870	31,183
% Change	6.0	5.0	-1.3	1.8	-0.9	2.5	3.3	4.1
Per Capita Income (\$)	32,644	33,304	33,381	33,793	34,033	34,462	34,953	35,453
% Change	7.5	8.3	0.9	5.0	2.9	5.1	5.8	5.8
Per Capita Income as Percent of U.S. (%)	98.8	98.0	98.0	98.0	98.2	97.9	97.7	97.7

II. REVENUE COLLECTIONS REPORT

REVENUE COLLECTIONS THROUGH OCTOBER 2005

Introduction

GPR tax collections reported by DOR during the first four months of FY 2006 increased 11.8% over the comparable period of FY 2005 from \$2.970 billion to \$3.322 billion. During this period, individual income tax receipts increased 17.7% to \$1.81 billion, sales tax revenue increased 4.2% to \$1.08 billion, and corporate collections increased 13.9% to \$231.5 million.

However, the individual income tax growth is due to late or revised postings described in more detail below. Adjusting for this, the individual income tax growth would be 6.4%, and the total GPR revenue growth would be 6.2%.

Tax collections for the first four months of FY 2006 are summarized in Table II.1.

Individual Income Tax

Individual income tax collections during the first four months of FY 2006 increased 17.7% to \$1.81 billion from \$1.537 billion in FY 2005. Through October, withholding payments, the largest source of payments, were up 18.6% as compared to a year ago from \$1.336 billion to \$1.584 billion. However, this increase is driven in large part by two distortions. First the FY 2005 withholding payments do not include a \$90.9 million posting which although due at the end of October was posted to November. Second, the FY 2006 withholding payments include a \$77 million posting for an accrual correction related to the prior year. Adding the \$90.9 million collection to FY 2005 and excluding the \$77 million posting in FY 2006 provides a more appropriate comparison across the years. After making these adjustments, withholding collections to date increased 5.6% over FY 2005, and total individual income tax collections increased 6.4 % over last year's levels.

Estimated payments made through October increased 10.3% from \$198.1 million to \$218.6 million.

General Sales and Use Tax

Sales tax collections for the first four months of FY 2006 increased 4.2% over the comparable period of FY 2005 from \$1.037 billion to \$1.080 billion.

Corporation Franchise and Income Tax

For the first four months of FY 2006, collections increased 13.9% from \$203.3 million to \$231.5 million. The largest source of corporate income tax payments, declaration payments, increased 19.6% from \$175.2 million in FY 2005 to \$209.5 million this year.

Public Utility Taxes

Utility tax collections for the first four months of FY 2005 decreased to \$1.3 million. Since most utility taxes are collected in May and November, the decrease in collections for the first four months of FY 2006 is not meaningful.

REVENUE COLLECTIONS REPORT

Excise Taxes

Cigarette tax collections during the first four months of FY 2006 were approximately the same from the comparable period of FY 2005, increasing only .28% from \$79.6 million to \$79.8 million.

Tobacco products tax collections through October have decreased 1.6% from \$4.29 million to \$4.22 million.

Liquor and wine collections increased 14.95% for the first four months of FY 2006 from \$9.7 million to \$11.1 million.

Beer tax collections through October have increased 6.4% from \$2.58 million to \$2.74 million.

Estate Taxes

Estate tax collections during the first four months of FY 2006 have increased 12.7% from \$40.6 million to \$45.8 million. Collections from this tax source are highly volatile.

Insurance Company Taxes

Insurance company tax collections increased 3.9% from \$29.4 million to \$30.5 million.

Real Estate Transfer Fee

Real estate transfer fee collections have increased 11.1% from \$21.8 million to \$24.2 million.

REVENUE COLLECTIONS REPORT

TABLE II.1
COMPARISON OF JULY - OCTOBER DEPARTMENT OF REVENUE
ACTUAL TAX RECEIPTS
(\$ Thousands)

Tax Source	First Four Months Of:		% Change
	FY 2005	FY 2006	
Individual Income	\$1,537,276	\$1,810,038	17.7%
General Sales and Use	1,037,229	1,080,474	4.2%
Corporation Franchise & Income	203,328	231,528	13.9%
Excise			
Cigarette	79,609	79,835	0.3%
Tobacco Products	4,290	4,221	-1.6%
Liquor	9,662	11,107	15.0%
Beer	2,575	2,741	6.4%
Inheritance, Estate & Gift	40,639	45,787	12.7%
Public Utility	4,650	1,280	-72.5%
Insurance	29,380	30,517	3.9%
Real Estate Transfer	21,768	24,181	11.1%
TOTAL	\$2,970,406	\$3,321,708	11.8%

Note: Detail may not add to totals because of rounding, and percent changes were calculated before rounding.